

Trade Issues for Low-Income Countries in the Latin America and Caribbean Region

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Abstract: The Latin American and Caribbean (LAC) countries and the United States are significant trade partners, but the LAC region has very diverse economies and trade interests. Since the debt crisis in the 1980s, many countries have displayed much more trade openness. Commitments from regional trade agreements, which continue to proliferate, are often more stringent than the Uruguay Round commitments for the larger countries, that may use the more demanding commitments in the next trade round. The smaller low-income net food-importing countries have struggled to form coalitions that allow them to voice their trade concerns. The loss or erosion of special trade preference arrangements may have negative short run effects on many of the smaller low-income countries.

Introduction

The Latin America and Caribbean (LAC) region is very heterogeneous in many ways, including the types of agricultural goods that are produced, consumed, and traded. In this article, we review some of the key agricultural trade issues that are likely to be important to the region in the next trade round.

The major theme that will emerge in this article is the trend over the past 15 years of greater trade openness. This trend has its roots in major policy changes that occurred in response to the debt crisis of the 1980s. The result for most countries has been greater macroeconomic stability and rapid economic and trade growth. However, income inequality has remained a stubborn problem throughout the region, despite this growth.

In this article, we identify some of the major regional agricultural trade interests, examine the net food-importing countries such as those monitored in this report, review the relative importance of multilateral and regional trade negotiations, and discuss the outlook for a few key regional trade agreements currently being negotiated that may affect the extent to which some LAC countries participate in the WTO negotiations.

Background and Trade Interests Of the LAC Region

Compared with other developing regions, the LAC region is relatively well off. The region's per capita income averages \$3,390 per year, in contrast to \$910 in East Asia and \$510 in Sub-Saharan Africa (World Bank, 1998). Food

calorie supplies also are relatively high at 2,812 calories per person per day, compared with 2,706 in East Asia and 2,164 in Sub-Saharan Africa (FAO, 1999). Other socioeconomic indicators also suggest that the region is relatively well off. However, these simple national averages mask relatively more skewed income distributions compared with other regions, meaning that the consequences of suffering from poverty are widespread among some of the lower income groups.

The LAC region is host to a wide variety of agricultural trading interests. The region is a net food exporter with an average food trade surplus of \$9.4 billion in 1995-97. However, if Argentina and Brazil—two of the largest net food exporters among all developing countries—are excluded, then the region is a net food importer (\$0.3 billion deficit). In general, most countries in Central and South America are exporters of beverage crops, fruits and vegetables, and sugar; they tend to be importers of grains, oilseed products, and dairy products. The Caribbean countries are largely service-oriented economies that typically depend on agricultural imports to meet the bulk of their food supplies.

Several countries are among the top producers or exporters for different commodities. Argentina is the world's fifth largest wheat exporter, second largest coarse grain exporter, and third largest soybean exporter. Brazil is the largest coffee exporter in the world, followed closely by Colombia. Brazil is also the second largest soybean exporter. Ecuador is the world's largest banana exporter. Costa Rica is the world's second largest exporter of both bananas and pineapples. Chile is the largest exporter of grapes, while Cuba is the fourth largest sugar exporter.

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It is also important to note that this region is a very important trading partner for the United States. In 1997, the United States exported \$57.2 billion in agricultural products to the world, of which \$10.4 billion (18.2 percent) went to this region. U.S. agricultural imports totaled \$36.3 billion in the same year, of which \$12.2 billion came from Latin America (33.6 percent). Mexico is the United States' third largest export market (after Japan and Canada) at \$5.2 billion (USDA, 1998a).

The Net Food Importing Countries Monitored in This Report

Economic and trade structure. To some extent, the countries monitored in this annual report exemplify the diversity of the region, representing South America (Bolivia, Colombia, Ecuador, and Peru), Central America (El Salvador, Guatemala, Honduras, and Nicaragua), and the Caribbean (Dominican Republic, Haiti, and Jamaica). However, all these countries are net food importers.

The monitored countries all fall below the LAC region's average per capita income level of \$3,940, ranging from \$380 in Haiti to \$2,610 in Peru (table C-1).² All of these countries (except for Haiti, which has suffered from political instability) have followed the regional pattern of showing a decline in per capita income growth in the 1980s compared with the 1970s, followed by a rebound in the 1990s. Reasons for this pattern will be discussed later. In 1996, agriculture represented on average about 17 percent of gross domestic product (GDP) for the 11 countries compared with only 8 percent of the LAC region as a whole (World Bank, 1998). Industry represented about 30 percent of GDP on average while services represent about 53 percent.

The countries also have kept pace with the regional trend of greater trade openness (table C-2). One commonly used indicator of openness is total trade (exports plus imports) as a percentage of gross national product (GNP). By this measurement, nearly every one of the 11 countries has become more open since the debt crisis in the mid-1980s. Jamaica is typical of the smaller, service-oriented economies in the Caribbean where trade is very dominant, which shows up as a very high openness ratio (typically over one).³

Agricultural exports are a significant share of total merchandise exports for these countries, accounting for about 31 percent in 1995-97 (table C-3). The largest component of exports is beverage crops (44 percent), followed by fruits and vegetables (25 percent). Agricultural imports represent a smaller share of imports, accounting for about 12 percent. The largest component of agricultural imports is cereals at

² Data are for 1997 using the Atlas method. Only Haiti is classified by the United Nations as a Least Developed Country. This allows it to claim Least Developed status in the Uruguay Round's Special and Differential Treatment (SDT) provisions (see table A-1, overview article).

³ Larger countries tend to have smaller openness ratios as domestic markets serve a larger role in their economies.

Table C-1--Per Capita Income Levels and Growth Rates

| Country | Income | Growth rates | | |
|----------------|--------|--------------------------|-----------|-----------|
| | 1997 | 1970-1979 | 1980-1989 | 1990-1997 |
| | \$U.S. | --- Percent per year --- | | |
| Bolivia | 970 | NA | NA | 1.41 |
| Colombia | 2,180 | 3.45 | 0.85 | 2.26 |
| Dominican Rep. | 1,750 | 5.74 | 1.00 | 2.09 |
| Ecuador | 1,570 | 5.77 | -0.50 | 1.35 |
| El Salvador | 1,810 | 1.19 | -3.10 | 3.29 |
| Guatemala | 1,580 | 3.30 | -1.72 | 1.43 |
| Haiti | 380 | 1.86 | -1.48 | -3.38 |
| Honduras | 740 | 2.29 | -0.70 | 0.46 |
| Jamaica | 1,550 | -0.41 | 0.11 | 0.74 |
| Nicaragua | 410 | -3.03 | -4.43 | 2.25 |
| Peru | 2,610 | 0.80 | -2.00 | 3.67 |
| LAC region | 3,940 | 3.44 | -0.16 | 1.18 |

NA = Not available.

Source: World Bank, World Development Indicators, 1999.

Table C-2--Trade Openness in Latin America

| Country | 1980-81 | 1984-86 | 1989-91 | 1994-96 |
|----------------|------------------------|---------|---------|---------|
| | ----- (X+M)/GDP* ----- | | | |
| Bolivia | 0.35 | 0.32 | 0.44 | 0.50 |
| Colombia | 0.21 | 0.20 | 0.23 | 0.35 |
| Dominican Rep. | 0.46 | 0.42 | 0.42 | 0.96 |
| Ecuador | 0.54 | 0.46 | 0.50 | 0.57 |
| El Salvador | 0.45 | 0.38 | 0.38 | 0.57 |
| Guatemala | 0.49 | 0.32 | 0.37 | 0.44 |
| Haiti | 0.18 | 0.20 | 0.28 | 0.34 |
| Honduras | 1.10 | 0.92 | 0.88 | 0.86 |
| Jamaica | 0.86 | 1.07 | 1.17 | 1.29 |
| Nicaragua | 0.88 | 0.62 | 0.72 | 1.00 |
| Peru | 0.25 | 0.21 | 0.22 | 0.27 |
| LAC region | 0.21 | 0.19 | 0.24 | 0.32 |

*X = Exports of merchandise and goods and services,

M = Imports of merchandise and goods and services.

Source: World Bank, World Development Indicators, 1999.

38 percent, followed by dairy products (8 percent) and fruits and vegetables (7 percent).

Policies. To appreciate the current policy setting, it is important to have some understanding for the region's economic history. The LAC region traditionally was known for import substitution industrialization (ISI) policies, about which much has been written. The ISI policies were established with the primary goal of achieving rapid industrialization. It was believed that the agricultural sector suffered from declining long run real output prices and by itself would never lead to an effective development strategy. Industry and manufacturing were artificially stimulated at the expense of agriculture by using policy instruments such as overvalued exchange rates, import quotas, and export taxes on agricultural commodities.

Several countries achieved high economic growth rates during the 1950s and 1960s, but the deeper problems with ISI policies eventually were exposed during the 1980s with the debt crisis. In the late 1970s, "petrodollars" from the oil and petroleum exporting countries (OPEC) countries were

Table C-3--Decomposition of Agricultural Trade for the 11 Selected Countries, 1995-97 Averages

| Table C-3 - Decomposition of Agricultural Trade for the 11 Selected Countries, 1955-57 Averages | | | | | | | | | | |
|---|---------------------|-------|---------------------|-------|-------|-----------------|-------------------|---------------|-------|-------|
| Country | Total merch. | Agri. | Cereals | Meats | Dairy | Fruits/ Veg. | Beverage crops | Oil- seeds | Sugar | Other |
| | --- \$ billion. --- | | ----- Percent ----- | | | | | | | |
| Exports | | | | | | | | | | |
| Bolivia | 1.15 | 0.34 | 1 | 1 | 0 | 12 | 6 | 22 | 6 | 50 |
| Colombia | 10.68 | 3.52 | 1 | 0 | 0 | 15 | 58 | 0 | 6 | 19 |
| Dominican Rep. | 0.83 | 0.39 | 0 | 3 | 0 | 13 | 33 | 0 | 31 | 20 |
| Ecuador | 4.86 | 1.67 | 3 | 0 | 0 | 67 | 19 | 0 | 1 | 10 |
| El Salvador | 1.95 | 0.59 | 4 | 0 | 1 | 2 | 70 | 1 | 7 | 14 |
| Guatemala | 2.18 | 1.36 | 4 | 0 | 0 | 18 | 42 | 3 | 17 | 16 |
| Haiti | 0.13 | 0.03 | 0 | 0 | 0 | 23 | 72 | 0 | 0 | 5 |
| Honduras | 1.33 | 0.51 | 0 | 2 | 0 | 35 | 57 | 0 | 1 | 5 |
| Jamaica | 1.40 | 0.30 | 3 | 1 | 1 | 27 | 12 | 0 | 35 | 21 |
| Nicaragua | 0.66 | 0.32 | 2 | 14 | 3 | 10 | 39 | 8 | 10 | 13 |
| Peru | 6.07 | 0.57 | 1 | 0 | 0 | 30 | 45 | 0 | 6 | 18 |
| Total 11 | 31.25 | 9.60 | 2 | 1 | 0 | 25 | 44 | 2 | 8 | 17 |
| Imports | | | | | | | | | | |
| Bolivia | 1.61 | 0.17 | 51 | 1 | 10 | 5 | 4 | 3 | 0 | 26 |
| Colombia | 14.30 | 1.62 | 40 | 2 | 3 | 12 | 1 | 6 | 1 | 36 |
| Dominican Rep. | 3.05 | 0.53 | 37 | 1 | 15 | 3 | 1 | 0 | 2 | 42 |
| Ecuador | 4.35 | 0.42 | 31 | 1 | 3 | 8 | 4 | 1 | 6 | 47 |
| El Salvador | 3.42 | 0.49 | 25 | 5 | 12 | 8 | 2 | 1 | 0 | 47 |
| Guatemala | 3.38 | 0.47 | 31 | 3 | 9 | 7 | 2 | 1 | 0 | 47 |
| Haiti | 0.65 | 0.32 | 42 | 1 | 7 | 6 | 0 | 0 | 16 | 27 |
| Honduras | 1.79 | 0.30 | 34 | 2 | 10 | 7 | 1 | 2 | 0 | 44 |
| Jamaica | 2.95 | 0.36 | 31 | 13 | 11 | 6 | 2 | 1 | 7 | 28 |
| Nicaragua | 1.18 | 0.20 | 36 | 1 | 8 | 9 | 1 | 1 | 0 | 44 |
| Peru | 8.01 | 1.24 | 45 | 2 | 10 | 4 | 1 | 1 | 8 | 28 |
| Total 11 | 44.69 | 6.11 | 38 | 3 | 8 | 7 | 2 | 2 | 4 | 37 |

invested in western banks. Given the general commodity boom of the 1970s and overall investment optimism of the time, these banks lent large sums of money to the developing countries, which borrowed the funds to help survive the oil price shocks. However, several countries quickly became overextended when their economies experienced downturns. In particular, the large outstanding foreign debts of Argentina, Brazil, and Mexico threatened the global financial system. However, several other smaller countries, such as Bolivia and Peru, were also very overexposed with total debt to gross domestic product ratios near or above one.

The debt crisis of the mid-1980s led to a series of major policy changes throughout the region. ISI policies came to be viewed as unsustainable over the long run, leading to economic problems such as high inflation, import rationing, and a lack of spare parts. Under pressure to improve overall economic performance, particularly exports for debt servicing obligations, many countries abandoned ISI policies and embarked on several major policy reforms. Substantial macroeconomic changes brought many countries under monetary and fiscal discipline, resulting in lower inflation and budget deficits. Legal reforms also improved the protection of property rights and foreign investment.

While the macroeconomic reforms have been very important in establishing stability and encouraging investment, the trade reforms that were implemented have been quite remarkable, particularly in light of the region's economic

history. Exchange rates have been unified and allowed to drop to market levels. Quantitative import restrictions have been eliminated for the most part. Tariffs have been dramatically lowered and simplified (table C-4). The dispersion of tariff rates within countries was also significantly reduced while export taxes have been eliminated. As indicated above, export growth has increased over the past decade in most countries.

As part of the goal to improve economic and trade performance over the past 15 years, countries in the LAC region have become much more active in negotiating trade agreements, both multilaterally through the World Trade Organization (WTO) and via regional trade agreements.

LAC Region and the Multilateral Trade Negotiations

Prior to the Uruguay Round, only 18 LAC countries were signatory members of the General Agreement on Tariffs and Trade (GATT, now WTO). However, as the negotiations continued, several more countries joined. Today, nearly every country in the LAC region is a member of the World Trade Organization.

The Uruguay Round was helpful in advancing the trade interests of the LAC region. For example, Argentina and Brazil became prominent members of the Cairns Group, which has gained influence by promoting free trade in agriculture. Several countries, particularly in the Caribbean,

Table C-4--Trade Regime Indicators, Pre- and Post-Reform Periods for Selected Countries

| Country | Period | | Average unweighted bound tariff rates | | Tariff range, bound tariff weight | | Coverage of quotas on imports | |
|-----------|------------|-------------|--|-------------|--------------------------------------|-------------|----------------------------------|-------------|
| | Pre-reform | Post-reform | Pre-reform | Post-reform | Pre-reform | Post-reform | Pre-reform | Post-reform |
| Bolivia | 1985 | 1991 | 12a | 8 | --- | 5-10 | --- | (-) |
| Colombia | 1984 | 1992 | 61 | 12 | 0-220 | 5-20 | 99 | 1 |
| Ecuador | 1989 | 1992 | 37b | 18 | 0-338b | 2-25c | 100 | 0 |
| Guatemala | 1985 | 1992 | 50b | 15b | 5-90 | 5-20 | 6d | 0d |
| Honduras | 1985 | 1992 | 41b | 15b,e | 5-90 | 5-20 | --- | 0 |
| Jamaica | 1981 | 1991 | --- | 20 | --- | 0-45 | --- | 0f |
| Peru | 1988 | 1992 | --- | 17 | 0-120 | 5-25 | 100 | 0d |

(---) Negligible.

a. Import weighted average tariff. b. Including tariff surcharges. c. Ecuador also has a specific tariff of 40 percent on automobiles.

d. Percentage of domestic product. Guatemala has significant quotas for health and safety reasons; pre-reform they covered 29 percent of domestic manufacturing production. e. Including tariff surcharges. f. Some quotas exist for health and safety reasons.

Source: Rajapatirana 35, (1997).

were strong advocates for the development of the General Agreement on Trade in Services (GATS). This agreement has “three pillars” that are comparable to those of the Agreement on Agriculture⁴—general obligations (for example, most favored nation (MFN) treatment, transparency, etc.), market access commitments, and sectoral annexes. The three are expected to have a positive effect on the trade of services.

To get further insight on the next round of multilateral trade negotiations, it is useful to review the projected benefits and costs from the Uruguay Round.⁵ Quantitative models of the Uruguay Round projected that global trade would increase income by \$212-510 billion (Nguyen, Perroni, and Wigle, 1994; Francois, McDonald, and Nordstrom, 1994). The models provided a range of estimated impacts upon the LAC region, from -0.3 to 1.68 percent of additional national income growth, although most of the studies suggest a positive economic effect for the LAC region. Much of the modeled regional gains were due to projected agricultural price increases from the Uruguay Round Agreement on Agriculture (URAA), which were expected to have positive effects on Argentina and Brazil, two of the dominant food-exporting countries. Conversely, many of the net food importing countries were expected to be hurt by rising food prices.⁶

⁴ The “three pillars” of the Agreement on Agriculture are market access, export subsidies, and domestic support.

⁵ One must be careful about overinterpreting these results, given the rapidly changing economic environment in the LAC region and older data used for the modeling projections. The results discussed here are only meant to be suggestive.

⁶ As it has turned out, grain prices have continued to go down, despite a short run weather-related price bubble in 1996. Five of the LAC countries monitored in this report (Colombia, Dominican Rep., Haiti, Jamaica, and Peru) particularly would be hurt in the short run by rising grain prices since imports comprise at least 45 percent of their total supplies. Jamaica is an extreme case with nearly 100 percent of its grain supplies coming from imports. There has been very little research on the impact of trade liberalization on smaller net food importing countries. Many economists argue that any short run losses would be more than offset by long run dynamic gains.

Another reason why some studies projected that there might be regional losses is the erosion of preference arrangements. In the LAC region, two preference arrangements that are important are the Generalized System of Preferences (GSP) with the United States and the Lomé Agreement with the European Union for the African, Caribbean, and Pacific (ACP) countries (which is currently being renegotiated). The erosion of the preference arrangements for some countries was projected to allow other regions (notably Asia) to gain.

The issues of preferences recently has pitted some of the LAC countries against each other. In the Central American and the Caribbean regions, exports of bananas, sugar and coffee—commodities typically covered by preferences—account for 40-60 percent of total agricultural exports in recent years (as much as 73 percent for a country like Ecuador). The recent WTO battle over the legality of EU preferences for bananas set the high-cost, less efficient banana producers in the Caribbean, who have benefited from the preferences, against the interests of low-cost producers in Central and South America who have not had such preferential arrangements (Rajapatirana, 1996). This and other WTO rulings may signal the end of preference arrangements over the long run, which might have important implications for production and trade patterns in certain countries (Josling and Tangermann, 1999).

Regional Trade Agreements Have Become Increasingly Important to the Region

A very important force for the LAC countries has been the bilateral and regional trade negotiations between LAC countries. Regional trade agreements (RTAs)—there are now 40 separate trade treaties in effect throughout the LAC region—have proliferated rapidly. Some of the larger treaties include the North American Free Trade Agreement (NAFTA), the Common Market of the Southern Hemisphere (known as MERCOSUR), the Andean Group, the Central American Common Market (CACM), the Caribbean Community

(CARICOM), and the Organization of the Eastern Caribbean States (OECS). NAFTA, which covers inter-regional trade of about \$500 billion, is by far the largest RTA (table C-5). The share of trade with other countries within the LAC region has increased from about 15 percent of all regional trade in 1988 to 21 percent in 1997 (IMF, 1998).

Regional trade agreements have stimulated much economic debate about whether RTAs enhance or hinder global trade. Some economists argue that a world of regional trading blocs would lead to a relatively high cost trading system compared with a multilateral trading system. However, defenders of RTAs argue that it depends on the circumstances. RTAs can be useful catalysts in stimulating deeper concessions in multilateral trade negotiations that might not otherwise occur without the RTAs. RTAs also can be viewed as stepping stones for some countries to move towards multilateral trade openness (USDA, 1998c).

Several LAC countries, particularly the larger ones, now have more stringent or binding trade agreements with other LAC countries because of the regional trade agreements. For these countries, such binding RTA commitments may be used as leverage to extract deeper concessions from other countries in the multilateral negotiation process. That is, a country may not be interested in a particular proposal if it already has more stringent commitments with important trade partners in a regional agreement. Therefore it may take a disinterested negotiating position in order to obtain deeper concessions from other countries in the WTO negotiations. However, many of the smaller low-income net food importing countries will have very little negotiating leverage by themselves. For these countries, the challenge will be whether they will be able to join other countries with similar interests to voice their trade concerns, such as the Caribbean countries are doing through CARICOM.

Status of New Regional Trade Agreement Initiatives

The short- to medium-run trade outlook could be affected by a few key regional trade agreements that are currently being negotiated. Whether these negotiations will lead to signed agreements is unclear at this time. However, the potential agreements discussed below could affect some of the low-income net food-importing countries directly by their possible membership inclusion or indirectly by their exclusion.

NAFTA-Chile. Currently the North American Free Trade Agreement is between Canada, United States, and Mexico. However, there have been discussions about allowing Chile to join this agreement.⁷ Trade between the present three NAFTA countries has been accelerating in recent years. It is unclear the extent to which the three are willing to consider a fourth trading partner in the agreement. Recent data show

⁷ It should be noted that there are bilateral treaties currently in effect between Canada-Chile and Mexico-Chile, but not between United States-Chile.

Table C-5--Selected Regional Trade Agreements

| Acronym | Full name | 1997 Intra- regional exports (\$ million) |
|----------|--|---|
| | | |
| NAFTA | North American Free Trade Agreement | 496,423 |
| MERCOSUR | Southern Common Market | 20,761 |
| --- | Andean Group | 5,102 |
| CACM | Central American Common Market | 1,736 |
| CARICOM | Caribbean Community | 1,006 |
| OECS | Organization of Eastern Caribbean States | 59 |

Source: World Bank 1999, 6.5.

Mexico's exports to the other NAFTA partners have grown 13.6 percent on average during 1994-98, compared with 7.9 percent by Canada and 8.6 percent by the United States (IMF, 1999). Recent agricultural trade data also show that U.S. agricultural imports from Mexico have grown 12 percent for the same period, while agricultural imports from Canada have grown 10.8 percent (USDA, 1999).

EU-MERCOSUR. The European Union and the MERCOSUR countries (Argentina, Brazil, Paraguay, and Uruguay) began a 3-year trade negotiation period in August 1999. It is very unclear at this time if such an agreement will be successfully negotiated. Agriculturally, these trading blocs face large obstacles since the MERCOSUR (exporting) countries compete with the EU countries in several arenas. The MERCOSUR countries would like to see EU agricultural subsidies eliminated and want increased access to the EU market.

Free Trade Agreement in the Americas. The free trade zone for all of the Americas—from Canada to Chile—was originally proposed at the first Summit of the Americas in December 1994. Formal negotiations began at the second formal summit with 34 heads of state in April 1998. With such a large number of countries, the agreement obviously faces many potential economic, political, legal, and technical obstacles. However, the potential agreement offers the opportunity to simplify the Americas' many bilateral and multilateral trade agreements. Preliminary modeling projections suggest that the agreement would have a very minor economic impact on the United States and that most LAC countries would stand to gain to varying degrees (USDA, 1998b). Again, this potential agreement might put pressure on the MERCOSUR and NAFTA countries to make important economic alliance choices. The agreement could also strain U.S.-EU relations if the EU thinks it has been effectively excluded from this market.

Conclusions

The LAC region is relatively well off compared to other developing regions and has much economic and agricultural diversity. The economic policy environment in most countries is now conducive to macroeconomic stability, investment, and trade opportunities. The LAC countries will be

engaged in the WTO trade negotiations, but the many regional trade agreements are likely to continue to have a strong influence on the trade environment.

The low-income net food-importing countries in the LAC region are likely to express their on-going concerns about agricultural trade issues that affect their food security. These issues include projected food price rises, more volatile food prices, and declining food aid availability. Many of these countries also are concerned about eroding trade preference arrangements, such as the Lomé Agreement for ACP countries. The recent WTO ruling against the EU on its preference arrangements for bananas illustrates how competition is likely to intensify between high-cost, less efficient producers in developing countries who benefit from preference arrangements and lower cost producers who do not enjoy such arrangements.

Little is known at this time about trade liberalization impacts on the food security of smaller countries, but it may be fair to conjecture that there will be both winners and losers. Some of these countries may face the unpleasant choice of either liberalizing trade (via regional trade agreements, for example) and hoping for positive results or not joining any trade treaties and getting left behind.

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